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**FISCAL IMPACT STATEMENT**

**LS 6787**

**BILL NUMBER:** HB 1086

**NOTE PREPARED:** Feb 2, 2010

**BILL AMENDED:** Feb 1, 2010

**SUBJECT:** Tax and Expenditure Administration..

**FIRST AUTHOR:** Rep. Welch

**FIRST SPONSOR:** Sen. Hershman

**BILL STATUS:** As Passed House

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) *Maximum Levy:* This bill specifies that the use of a cash balance to reduce a property tax rate does not reduce a civil taxing unit's maximum permissible levy.

*Standard Deduction:* The bill permits an individual to receive both a senior citizen property tax deduction and a supplemental standard deduction.

*Delinquent Taxes:* This bill requires payment of certain delinquent property taxes before removing property from the tax sale list or allowing a person to record a plat of a subdivision or consolidate contiguous parcels into a single parcel for property tax purposes.

*Deadlines:* The bill changes the deadline for filing a rehabilitation property tax deduction application. The bill also extends the time in which an ordinance imposing, increasing, or decreasing a local income tax may be adopted.

*Fire Protection Territories:* The bill permits fire protection territories (FPT) to delay part of an increase in property taxes for up to three years.

*LOIT Credits:* This bill requires surplus local option income tax revenue to be used as property tax replacement credits.

*Miscellaneous:* The bill defines the term "mobile home community" for the purposes of the property tax laws. It also corrects references to the definition of homestead, removes references to obsolete administrative rules related to inventory, and makes other technical changes property tax laws.

*Solar Energy Systems:* The bill describes various solar heating and cooling systems that are eligible for the deduction. It changes the method by which solar heating and cooling systems are valued for purposes of a property tax deduction. The bill also indicates that a mobile home owner does not need to annually file for a solar heating and cooling system exemption.

*Study Committee:* This bill provides for a study of the allocation and distribution of local income taxes and for the preparation of corrective legislation to amend all laws affected by the change in the last date that local taxes can be imposed, increased, or decreased in a county.

*State Expenditure Information:* The bill requires the Auditor of State, working with the Office of Technology, to develop and maintain an Internet web site detailing all state expenditures by state agencies. It requires state agencies to provide information to the Auditor of State and to develop links on agency Internet web sites to the auditor's expenditure Internet web site.

*Agricultural Land Assessments:* This bill changes the method for computing the base value of agricultural land for the March 1, 2011, assessment date.

**Effective Date:** (Amended) Upon passage; March 1, 2008 (retroactive); January 1, 2009 (retroactive); January 1, 2010. (retroactive); March 1, 2010 (retroactive); July 1, 2010; January 1, 2011.

**Explanation of State Expenditures:** *Study Committee:* This provision would require the Commission on State Tax and Financing Policy to study the allocation and distribution of local income taxes during the 2010 interim. There would be no additional expense to include this topic of study.

(Revised) *State Expenditure Information: Summary* - This bill will increase administrative costs for the Auditor of State and the Office of Information Technology. The increase is indeterminable and will depend on the amount of resources that will be required to implement the data base required by the bill. The bill requires these two agencies to work together to develop and maintain an Internet web site detailing state expenditures by each agency and account balances. Also, the bill requires the Auditor of State to provide a report to the State Board of Finance and the Legislative Council that details the state expenditures and account balances contained in the database and the progress that the Auditor of State's office has made regarding the provisions in this bill.

All other state agencies (other than state educational institutions) should not be significantly affected because the bill does not require a state agency to record information or expend resources for the purpose of computer programming to make information reportable. The bill's definition of state agency includes the legislative, administrative, and judicial branches of government, and state educational institutions. The bill does require state agencies to cooperate with the Auditor and provide the information necessary for the Auditor to compile the data base. It is estimated that all state agencies currently have the information needed for the data base. The bill does require each state agency to include a link to this data base on the state agency's web site. This provision is not expected to have a significant fiscal impact on state agencies.

Initially, the website will include the required information for all state agencies other than state educational institutions. The bill requires the Auditor of State and the Office of Technology to provide a description of the data fields and data transfer standards and protocols developed during the initial phase to each state educational institution. The Auditor of State is also required to submit a report to the Legislative Council that specifies the cost required for each state educational institution to comply with the requirements of this bill. Then, the Legislative Council will determine whether a state educational institution can provide the required

information without expending resources.

(Revised) Background Information - There are 29 states that currently provide budget and spending information online: Alabama, Alaska, California, Delaware, Florida, Georgia, Hawaii, Illinois, Kansas, Kentucky, Louisiana, Maryland, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New York, North Carolina, Oklahoma, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, and Wyoming.

Six states are currently involved in the process of implementing websites containing budget and spending information: Arizona, Colorado, North Dakota, Ohio, Oregon, and West Virginia.

#### *State Examples -*

*Alaska:* Alaska's Checkbook Online was launched in January 2008 and was created by using reports from a data warehouse of accounting information which were posted on the website. The total implementation cost of the website was about \$5,000. The website is updated monthly, which takes about one day for the accountant to pull the reports and the webmaster to post the information and update the links. Checkbook Online only includes payments made through the statewide accounting system, and does not include financial information for state educational institutions.

*Nebraska:* The Nebraska Spending website includes audit and budget databases and was implemented through a phase-in process. The first phase, which occurred in January 2008, made information regarding the budget, tax revenues, tax information (descriptions of the taxes and their respective rates), and the previous fiscal year expenditures available to the public. The second phase included information about property taxes, state contracts from 1997 to 2007 for expenditures over \$500,000, and was implemented in May 2008. The third phase, which was to be completed in May 2009, will include spending for state educational institutions, and is estimated to cost approximately \$3,000 to \$5,000 to implement. In its current form, the cost for the website is estimated to be \$38,000, and reoccurring annual maintenance costs are estimated to be about \$1,100.

*Nevada:* The Nevada Open Government website includes state expenditures and revenue sources. The projected development costs of the website for the current fiscal year are estimated to be about \$160,000. The website will expand in the future to include information on payroll, contracts, and grants. The inclusion of this information is expected to cost about \$266,000 to implement. Annual maintenance costs are estimated to be about \$25,000. Actual expenditures are not included for state educational institutions since they do not record their expenditures in the statewide financial system. However, the website includes their budgetary information, including revenue sources other than the General Fund, such as registration fees, as part of the executive budget.

*Oklahoma:* Oklahoma's Open Books website was launched in September 2007, and it includes information on state expenditures, revenues, incentive payments, and tax credits. Search capabilities were added after the site was launched. The initial implementation of the website was about \$40,000 and was accomplished through existing resources. Ongoing maintenance costs have not been tracked and are accomplished through existing resources.

#### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** (Revised) *Delinquent Taxes:* Under current law, a transfer of

ownership interest for a real property parcel that results from either a split or a combination of parcels may not be recorded until all past due property taxes are satisfied and the county auditor makes an endorsement.

This bill would also require payment of past due taxes and the auditor's endorsement before property is removed from the tax sale list and before allowing a person to record a plat of a subdivision or to consolidate parcels. This provision could increase the number of instruments that would have to be endorsed by the county auditor.

*LOIT Credits:* Under current law, the Department of Local Government Finance (DLGF) must calculate and certify the county homestead credit percentage for the LOIT-funded homestead credit. Under this bill, each county would make their own calculation. The bill also specifies that revenue remaining after LOIT property tax replacement is paid, if any, must be used for property tax replacement in subsequent years.

**Explanation of Local Revenues:** *Maximum Levy:* Under current law, civil taxing unit maximum levy limits grow by the six-year average increase in Indiana nonfarm personal income. The growth factor is applied to the sum of the previous year's actual controlled levy *after eliminating the effects of temporary adjustments to the working maximum levy*, plus one-half of the amount of maximum levy in the previous year that was not levied.

Under this bill, a cash balance used by a taxing unit to temporarily reduce the actual levy would be treated as property taxes in the maximum levy calculation. So, the following year's maximum levy calculation would be based on the unreduced levy amount. This provision could encourage taxing units to use cash balances and temporarily reduce levies without losing any levy authority.

*Standard Deduction:* Under current law, homeowners who receive the senior deduction may not receive any other deductions except for the mortgage deduction and the traditional standard deduction. The new supplemental homestead standard deduction is automatically granted to any homeowner that receives the traditional standard deduction. This bill clarifies that senior taxpayers may receive both the over-65 deduction and the supplemental standard deduction.

*Deadlines - Rehabilitation Property Tax Deduction Applications:* Under current law, an application for a rehabilitated property tax deduction must be filed in the year of assessment or within 30 days of receiving a notice of assessment if received before *December 31<sup>st</sup>*. This provision would allow the filing within 30 days of receiving a notice of assessment if received before *December 1<sup>st</sup>*.

*Deadlines - LOIT Changes:* Currently, most LOIT rate adoptions, rescissions, or changes must be adopted between April 1<sup>st</sup> and July 31<sup>st</sup>, inclusive, to be effective in the year adopted. Under this bill, adoptions, rescissions, or changes may be made at any time in a year before November 1<sup>st</sup>. This provision could result in faster implementation of LOIT changes adopted by a county. The effective dates, based on adoption date, are as follows.

<b>Proposed Effective Dates For New or Increased LOIT Rates</b>	
<b>Adoption Date</b>	<b>Effective Date</b>
January 1 to September 30	October 1
October 1 to October 15	November 1
October 16 to October 31	December 1

<b>Proposed Effective Dates For Rescinded or Reduced LOIT Rates</b>	
<b>Adoption Date</b>	<b>Effective Date</b>
January 1 to September 30	Later of : October 1 or same month as last rate increase
October 1 to October 15	Later of : November 1 or same month as last rate increase
October 16 to October 31	December 1

*Fire Protection Territories:* Under current law, the legislative bodies of at least two contiguous taxing units may establish a fire protection territory. All units involved in the FPT are participating units, one of which is the provider unit. During the first three years of the territory's existence, the participating units each impose a property tax levy to support the FPT. After three years, the provider unit imposes a levy and tax rate upon all of the property in the FPT and the other participating units' levies for fire protection are eliminated.

Prior to the passage of HEA 1001-2008, a participating unit's maximum levy could be increased in the first three years in order to generate the unit's share of the amount necessary to fund the FPT. Under HEA 1001-2008, the levy for an FPT could not increase in any year by more than the income-based assessed value growth quotient (AVGQ), about 3% per year.

However, under HEA 1001-2009ss, new participating units will submit their first-year proposed budget, levy, and tax rate for the FPT to the DLGF. The initial levy set by the DLGF is the basis for future levy growth under the AVGQ growth limits, except that the DLGF may reduce the base by all or a part of the initial levy that was used to establish an operating balance. The operating balance may not exceed 20% of budgeted expenses.

Under this bill, a civil taxing unit may petition the DLGF for an increase in its maximum levy to meet its obligations to the FPT. The DLGF may grant increases over a three-year period, allowing for a reasonable operating balance, with no specific limit rather than the current 20% limit. This provision would permit more flexibility in setting maximum levies in the first three years. Initial levies could be higher under this bill to build an operating balance if the DLGF determines that the reasonable operating balance exceeds 20% of expenditures.

*Solar Energy Systems:* Under current law, the owner of real property or a mobile home may receive a property tax deduction if the property is equipped with a solar energy heating or cooling system. The amount of the deduction equals the difference between the assessed value with the system and the assessed value without the system. The DLGF is required to promulgate rules regarding the determination of the system's value.

This bill removes the requirement for the DLGF to promulgate rules on solar system deductions. Instead, this provision would set the deduction amount equal to the out-of-pocket expenditures for the system's components and installation. This provision would simplify the county auditor's determination of the deduction amount. There would likely be little or no change in the amount deducted.

(Revised) *Agricultural Land Assessments*: Under current law, the assessed value of real property is adjusted each year to reflect market changes. Each year, the base rate for agricultural land is set by the DLGF, based on a six-year rolling average of the capitalization of net cash rents and net operating income for farmland. Under this bill, for taxes payable in 2012 only, the base rate would be reduced by 10%.

The base value per acre of farmland is \$1,250 for taxes payable in 2010, and is currently estimated at \$1,400 for 2011, \$1,700 for 2012, and \$1,810 for 2013. Under this proposal, the base rate would be \$1,530 for 2012 but would be unaffected for all other years.

The reduction in the farmland base rate in this proposal would result in a smaller tax base than under current law. This would lead to a higher tax rate. The statewide average tax rate per \$100 AV would increase by an estimated \$0.0174 in 2012.

This increased tax rate would shift part of the tax burden from farmland to all other classes of property in 2012. In addition, circuit breaker credits would increase by a small amount and TIF proceeds would increase slightly. The table below contains estimates of these changes.

<b>Estimated Net Property Tax and Circuit Breaker Changes</b>		
<b>Net Tax by Property Type</b>	<b>2012</b>	
Homesteads	+8.3 M	+0.5%
Farmland	-25.3 M	-7.9%
Other Residential	+2.1 M	+0.3%
Commercial Apartments	+0.2 M	+0.1%
Ag_Business (Ex. Farmland)	+1.9 M	+1.9%
Other Real Property	+4.6 M	+0.3%
Personal Property	+4.5 M	+0.5%
<b>TIF Proceeds</b>	+0.9 M	+0.2%
<b>Circuit Breakers</b>	+4.8 M	+1.1 %

**State Agencies Affected:** DLGF; State Budget Agency.

**Local Agencies Affected:** County auditors; County councils and income tax councils; Fire protection territories; County assessors; Local taxing units impacted by circuit breaker credits.

**Information Sources:**

Center for Fiscal Accountability, <http://www.fiscalaccountability.org/index.php?content=state>; Kim Garnero. Alaska Department of Administration, Division of Finance, 907-465-3435; Trent Fellers, Nebraska State Treasurer's Office, 402-471-8884; Dave McTeer, Nevada Department of Administration, Information

Technology Division, 775-684-0222; Lisa McKeithan, Oklahoma Office of State Finance, 405-521-3772; *Farmland Assessment For Property Taxes*, Larry DeBoer, Purdue University, [http://www.agecon.purdue.edu/crd/Localgov/Topics/Essays/Prop\\_Tax\\_FarmLand\\_Asmt.htm](http://www.agecon.purdue.edu/crd/Localgov/Topics/Essays/Prop_Tax_FarmLand_Asmt.htm); LSA parcel-level assessment and tax database.

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